



Bill Fraher, CPA

**CAPE COD MUNICIPAL HEALTH GROUP
FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS
WITH REQUIRED SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2009 and 2008
WITH INDEPENDENT AUDITOR'S REPORTS**

CAPE COD MUNICIPAL HEALTH GROUP
FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS
WITH REQUIRED SUPPLEMENTARY INFORMATION
Years Ended June 30, 2009 and 2008

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INDEPENDENT AUDITOR'S REPORT

To the Steering Committee
Cape Cod Municipal Health Group

I have audited the accompanying statements of Cape Cod Municipal Health Group (the Group), as of and for the years ended June 30, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of the Group's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that I plan and perform my audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cape Cod Municipal Health Group as of June 30, 2009 and 2008, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued a report dated June 23, 2010 on my consideration of the Cape Cod Municipal Health Group's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audits.

The Management's Discussion and Analysis on pages iv through vi is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

The ten-year claims development information on page 10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information, and I express no opinion on it.

Boston, Massachusetts
June 23, 2010



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Steering Committee
Cape Cod Municipal Health Group

I have audited the financial statements of Cape Cod Municipal Health Group (the Group), Barnstable, Massachusetts, as of and for the years ended June 30, 2009 and 2008, and have issued my report thereon dated June 23, 2010. I conducted my audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Group's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Group's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Group's ability to initiate, authorize, record, process or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the Group's financial statements that is more than inconsequential will not be prevented or detected by the Group's internal control. I consider the deficiencies described in the following paragraph to be significant deficiencies in internal control over financial reporting.

The Group's Treasurer performs or supervises all functions and controls that initiate, record and process all of the Group's transactions and financial reporting. This lack of segregation of duties is a combination of control deficiencies that I consider to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the Group's financial statements will not be prevented or detected by the Group's internal control. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this report and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.



To the Steering Committee
Cape Cod Municipal Health Group
Report on Internal Control over Financial Reporting and on Compliance and Other Matters

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Group's financial statements are free of material misstatement, I performed tests of the Group's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported herein under Government Auditing Standards.

I noted certain matters related to internal control over financial reporting and compliance and other matters that I reported to the Group in a separate letter dated June 23, 2010.

This report is intended for the information of the Group, its management, and other appropriate government agencies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read 'Paul M. Orr'.

Boston, Massachusetts
June 23, 2010

CAPE COD MUNICIPAL HEALTH GROUP

Management's Discussion & Analysis

June 30, 2009

The management of Cape Cod Municipal Health Group (the Group) offers readers of our financial statements the following narrative overview and analysis of our financial activities for the year ended June 30, 2009. Please read this discussion and analysis in conjunction with the Group's basic financial statements on the accompanying pages.

Basic Financial Statements

The basic financial statements are prepared using the accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when incurred. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets; a statement of cash flows and notes to the financial statements.

The statement of net assets presents information on the assets and liabilities of the Group, with the difference being reported as net assets.

The statement of revenues, expenses, and changes in net assets reports the operating and non-operating revenues and expenses of the Group for the fiscal year. The net result of these activities combined with the beginning of the year net assets reconciles to the net assets at the end of the current fiscal year.

The statement of cash flows reports the changes in cash for the year resulting from operating and investing activities. The net result of the changes in cash for the year, when added to the balance of cash at the beginning of the year, equals cash at the end of the year.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements follow the basic financial statements described above.

Financial Highlights

- Assets exceeded liabilities by \$18,227,222 (net assets) at the close of the fiscal year. This is up 20.5% from the prior year. Net assets at June 30, 2009 represent 14.9% of fiscal year 2009 claims expense. At June 30, 2008 net assets represented 14.1% of fiscal year 2008 claims expense.
- For the year ended June 30, 2009, net assets increased by \$3,104,707 or 20.5% compared to a \$4,400,607 or 22.5% decrease for fiscal year 2008.
- The statement of cash flows identifies the sources and uses of cash activity for the fiscal year and displays a net increase in cash of \$9,171,971 for fiscal year 2009 compared to a \$4,457,658 decrease in cash for fiscal year 2008.

CAPE COD MUNICIPAL HEALTH GROUP

Management's Discussion & Analysis

June 30, 2009

- The increase in cash for 2009 is primarily a result of better than expected claims experience, despite the utilization of a portion of our fund balance to minimize increases in the FY 2009 plan rates. The decrease in cash for 2008 is primarily a result of the Group providing its members with a one month "premium holiday" in which premiums were not collected for most plans for the month of December, 2007. The goal of the premium holiday was to return an estimated \$10 million of the Groups unrestricted net assets to its members, in accordance with the Groups "fund balance policy." Actual claims experience for fiscal year 2008 was better than anticipated resulting in the actual utilization of unrestricted net assets of \$4,400,607.

For fiscal year 2009, the Group's operating results resulted in an approximately \$3.7 million surplus. This surplus was better than anticipated as the Group utilized a portion of its fund balance to minimize increases in the FY 2009 plan rates. Actuarial assumptions are used in projecting annual claims costs for each health plan on a per member/per month basis and a rate, on a plan by plan basis, is set to fund the aggregate of the total projected claims and other Group costs.

The Group has adopted a fund balance policy which provides for a target range of unrestricted net assets of between 8 – 12% of claims for the Group to maintain for operating purposes.

Market losses on the Group's investment portfolio of \$548,600, when applied against the operating surplus, results in a net increase of the Group's net assets of over \$3.1 million.

Condensed Financial Information

A comparative summary of financial information is presented below:

	<u>2009</u>	<u>2008</u>	<u>Amount of Change</u>	<u>% Change</u>
Cash	\$23,510,401	\$14,338,430	\$ 9,171,971	64.0%
Investments	8,584,146	9,349,595	(765,449)	(8.2%)
Other current assets	<u>1,340,837</u>	<u>4,098,162</u>	(2,757,325)	(67.3%)
Total assets	33,435,384	27,786,187	5,649,197	20.3%
Claims liabilities	13,490,965	10,790,935	2,700,030	25.0%
Other current liabilities	<u>1,717,197</u>	<u>1,872,737</u>	(155,540)	(8.3%)
Total liabilities	<u>15,208,162</u>	<u>12,663,672</u>	2,544,490	20.1%
Unrestricted net assets	<u>\$18,227,222</u>	<u>\$15,122,515</u>	3,104,707	20.5%
Member assessments	\$133,589,675	\$109,709,176	23,880,499	21.8%
Medicare part D subsidy	1,398,306	605,226	793,080	131.0%
Claims expense	(121,990,137)	(106,907,389)	15,082,748	14.1%
Claims administration expenses	(6,307,212)	(5,840,019)	467,193	8.0%
Other group expenses	<u>(3,037,325)</u>	<u>(2,628,622)</u>	408,703	15.5%
Operating income (loss)	3,653,307	(5,061,628)	8,714,935	
Investment income (loss)	<u>(548,600)</u>	<u>661,002</u>	(1,209,602)	(183.0%)
Change in net assets	<u>\$ 3,104,707</u>	<u>(\$4,400,607)</u>	7,505,314	

CAPE COD MUNICIPAL HEALTH GROUP
Management's Discussion & Analysis
June 30, 2009

Economic Factors Affecting the Subsequent Year

The Group is operating in an environment of escalating health care costs. Given this environment the Group is actively participating in ongoing wellness programs to promote healthier lifestyles and ultimately to reduce health claim costs. In addition, the Group has been evaluating its prescription drug benefit on an ongoing basis and has provided a discretionary opportunity to its members to purchase certain prescription drugs from pre-approved, foreign suppliers. The foreign purchasing option results in a net savings to the Group in reduced claims costs and to the individual member in the form of reduced co-pays.

Prior to June 30, 2009, the Group's Board of Directors set the rate structure for fiscal year 2010 plan participation. The rate structure resulted in a blended premium rate increase of less than 10.0%. The rates were set to fund the estimated cost of claims, plus other group expenses and applied a portion of the Groups unreserved fund balance to maintain compliance with its fund balance policy.

Request for information

This financial report is intended to provide an overview of the finances of the Group. Any questions concerning this report, or for additional information, please contact the Group's benefit administrator, Group Benefits Strategies at 800-229-8008, or Treasurer, Richard D. Bienvenue, CPA.

CAPE COD MUNICIPAL HEALTH GROUP

Statement of Net Assets

June 30, 2009 and 2008

(Notes 1 and 2)

	<u>2009</u>	<u>2008</u>
	<u>Total</u>	<u>Total</u>
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents (Note 3)	\$ 23,510,401	\$ 14,338,430
Investments (Note 3)	8,584,146	9,349,595
Receivables:		
Member accounts	72,068	180,819
Reinsurance claims	329,001	2,556,275
Medicare part D receivable	557,669	453,119
Reserve for uncollectible accounts	<u>(10,000)</u>	<u>(10,000)</u>
Total receivables	948,738	3,180,213
Prepaid expenses	12,799	577,949
Deposits with insurance carriers	<u>379,300</u>	<u>340,000</u>
Total assets	<u>\$ 33,435,384</u>	<u>\$ 27,786,187</u>
<u>LIABILITIES</u>		
Current Liabilities:		
Accounts payable	\$ 119,901	\$ 77,121
Claims liabilities (Note 5)	13,490,965	10,790,935
Participants' advance contributions	<u>1,597,296</u>	<u>1,795,616</u>
Total liabilities	15,208,162	12,663,672
<u>NET ASSETS</u>		
Unrestricted:		
Medical and dental programs	<u>18,227,222</u>	<u>15,122,515</u>
Total unrestricted/net assets	<u>18,227,222</u>	<u>15,122,515</u>
Total liabilities and net assets	<u>\$ 33,435,384</u>	<u>\$ 27,786,187</u>

See the accompanying notes to the financial statements.

CAPE COD MUNICIPAL HEALTH GROUP
Statement of Revenues, Expenses, and Changes in Net Assets
Years Ended June 30, 2009 and 2008
(Notes 1 and 2)

	<u>2009</u>	<u>2008</u>
	<u>Total</u>	<u>Total</u>
Operating revenues:		
Participants' contributions	\$ 133,589,675	\$ 109,709,176
Medicare part D refund	<u>1,398,306</u>	<u>605,226</u>
Total operating revenues	<u>134,987,981</u>	<u>110,314,402</u>
Operating expenses:		
Health claims incurred	121,990,137	106,907,389
Claims administration charges	6,307,212	5,840,019
Fixed premiums	235,482	162,235
Stop loss insurance premiums	1,650,081	1,542,880
Consulting services	830,020	700,921
Other administrative services	157,498	134,028
Wellness program	<u>164,244</u>	<u>88,558</u>
Total operating expenses	<u>131,334,674</u>	<u>115,376,030</u>
Operating income	3,653,307	(5,061,628)
Nonoperating revenues:		
Other income (expense)	-	-
Investment income	<u>(548,600)</u>	<u>661,021</u>
Total nonoperating revenues:	<u>(548,600)</u>	<u>661,021</u>
Changes in net assets	3,104,707	(4,400,607)
Net assets, beginning of year	<u>15,122,515</u>	<u>19,523,122</u>
Net assets, end of year	<u>\$ 18,227,222</u>	<u>\$ 15,122,515</u>

See the accompanying notes to the financial statements.

CAPE COD MUNICIPAL HEALTH GROUP

Statement of Cash Flows

Years Ended June 30, 2009 and 2008

(Notes 1 and 2)

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Cash received from participants	\$ 133,500,105	\$ 111,099,270
Other operating cash receipts - Medicare Part D	\$ 1,293,756	\$ 1,493,257
Cash paid to insurance providers and other vendors	<u>(125,838,739)</u>	<u>(117,509,499)</u>
Net cash provided (used) by operating activities	8,955,122	(4,916,972)
Cash flows from investing activities:		
Purchases and sales of investments (net)	765,449	(201,707)
Interest income on deposits	<u>(548,600)</u>	<u>661,021</u>
Net cash (used) by investing activities	<u>216,849</u>	<u>459,314</u>
Net (decrease) in cash	9,171,971	(4,457,658)
Cash, beginning of year	<u>14,338,430</u>	<u>18,796,088</u>
Cash, end of year	<u>\$ 23,510,401</u>	<u>\$ 14,338,430</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 3,653,307	\$ (5,061,628)
Changes in operating assets and liabilities:		
Accounts receivable	2,231,474	93,432
Prepays	565,150	(536,078)
Deposits	(39,300)	117,300
Accounts payable	42,780	67,775
Claims liabilities	2,700,031	(1,107,171)
Other liabilities	<u>(198,320)</u>	<u>1,509,398</u>
Net cash provided by operating activities	<u>\$ 8,955,122</u>	<u>\$ (4,916,972)</u>

See the accompanying notes to the financial statements.

CAPE COD MUNICIPAL HEALTH GROUP

Notes to Financial Statements

June 30, 2009 and 2008

Note 1. Description of Group

Cape Cod Municipal Health Group (the Group), Barnstable, Massachusetts, is a Massachusetts Municipal Joint Health Insurance Purchase Group formed pursuant to Massachusetts General Laws, Chapter 32B, Section 12 under a certain joint purchase agreement which became effective in July 1987. The Group became operational in November 1987. As a governmental entity, the Group is not subject to the provisions of the Employee Retirement Income Security Act of 1974 nor is it subject to federal and state income taxes.

The Group offers health benefits to all eligible employees and retirees of its fifty-two participating governmental units.

Participating governmental units consist of those municipal groups that have signed a Joint Negotiation and Purchase of Health Coverage governmental agreement. At June 30, 2009, participants are the towns of Barnstable, Brewster, Chatham, Dennis, Eastham, Falmouth, Harwich, Mashpee, Orleans, Provincetown, Sandwich, Truro, Wellfleet, and Yarmouth; Bourne Recreation Authority; Barnstable Fire District, Centerville-Osterville-Marstons Mills Fire District, Cotuit Fire District, Hyannis Fire District, and West Barnstable Fire District; Bourne Water District, Buzzards Bay Water District, Dennis Water District, Mashpee Water District, North Sagamore Water District, and Sandwich Water District; Orleans/Brewster/Eastham Groundwater Protection District; Cape Cod Collaborative; Cape Cod Regional Technical High School, Dennis-Yarmouth Regional School District, The Lighthouse Charter School, Nauset Regional School District, and Upper Cape Cod Vocational Technical High School; Veterans Services of Cape Cod; Barnstable County; and Cape Cod Regional Transit Authority. In addition, the Group entered into a Joint Negotiation Purchase of Health Coverage with the Dukes County Municipal Health Group which now consists of Dukes County Commissioners; the towns of Chilmark, Edgartown, Gosnold, Oak Bluffs, Tisbury, West Tisbury, and Aquinnah; Martha's Vineyard Refuse Disposal and Resource Recovery District; Martha's Vineyard Commission; Martha's Vineyard Land Bank Commission; Oak Bluffs Water District; Martha's Vineyard Regional School District; Up-Island Regional School District; Martha's Vineyard Charter School; and Martha's Vineyard Transit Authority. The number of subscribers in the self-funded medical plans was approximately 10,000 at June 30, 2009 and 2008.

Governmental units may apply for membership and be added to the Group, commencing on a date mutually agreed upon, provided that no less than two-thirds of the Board representatives present at a duly called meeting of the Board vote to accept such additional participants.

Any participating governmental unit may withdraw participation at its discretion. A governmental unit that elects to terminate participation in the Group must notify the Cape Cod Municipal Health Group Board (the Board) of such intent to withdraw 90 days prior to the stated anniversary date of the basic health contracts and shall take effect on such anniversary date.

There is no liability for premium or administrative expense following the effective date of termination of a participating governmental unit's coverage under a contract purchased through the Group except for the governmental unit's proportionate share of any deficit in the Cape Cod Municipal Health Group Trust (the Trust) as of its termination date, or of any premium expense or any subsequent expense for its covered individuals continued on the plan after termination. In the case of a certified surplus (uncommitted fund balance), a unit that withdraws from the Group on anniversary is entitled to receive a proportionate share of any increase in the uncommitted fund balance that occurred during the governmental unit's last year of

CAPE COD MUNICIPAL HEALTH GROUP

Notes to Financial Statements

June 30, 2009 and 2008

Note 1. Description of Group (continued)

participation in the Group. If the uncommitted fund balance did not increase during the unit's last year of participation the unit is not entitled to any share of the uncommitted fund balance.

Contributions to the Group's trust fund from participating governmental units are on a monthly basis. The payment is calculated by the Board and is determined to be 100% of the cost of coverage of the Group as a whole (including, but not limited to, anticipated incurred claims, retention, risk, and group administration expenses) as established through underwriting and/or actuarial estimates.

The Group's Board may deal with certified surpluses and deficits through the rate setting process and this is the preferred method. Alternatively, the Group may deal with certified surpluses and deficits by making direct distributions to members in the case of a certified surplus or may require direct payments from members in the case of a certified deficit.

Health benefits consist of a traditional medical indemnity program and a Medex program with Blue Cross and Blue Shield of Massachusetts. The traditional medical indemnity program consists of Master Health Plus and Master Health/Master Medical, and Master Medical Medicare Carveout plans. In addition, the Group has adopted an Exclusive Provider Organization plan with Harvard Pilgrim Health Care and a self-funded medi-wrap plan, Harvard Pilgrim Health Care Enhance Medicare. All of these plans are self-funded. The Group has adopted three Medicare+Choice plans: Medicare HMO Blue, Managed Blue for Seniors and Tufts Medicare Preferred (fully insured). The Group has adopted Blue Cross/Blue Shield (BC/BS) Network Blue, a self-funded, Exclusive Provider Organization (EPO) plan as well as two Preferred Provider Organization (PPO) plans. Blue Care Elect Preferred PPO is administered by BCBS, and Harvard Pilgrim PPO is administered by HPHC. Both PPO plans are self-funded. Also, the Group has adopted a contributory dental insurance plan (self-funded) and a voluntary dental plan, which was premium based through June 30, 2007 and changed to a self-funded basis effective July 1, 2007.

The traditional medical indemnity plans, Blue Care Elect Preferred PPO plan, Network Blue EPO plan, and Medex plan are on a claims-paid basis and are administered by Blue Cross and Blue Shield of Massachusetts for a monthly administration fee based on the number of individual, single parent/single child, and family plan subscribers for that particular month.

The Harvard Pilgrim EPO plan, Harvard Pilgrim PPO plan and Harvard Pilgrim Health Care Enhance Medicare plan are on a claims-paid basis and are administered by Harvard Pilgrim Health Care for a monthly administration fee based on the number of individual and family plan subscribers for that particular month.

The contributory dental plan is on a claims-paid basis for subscribers whose employers pay a portion (50% or more) of the monthly cost. The voluntary dental plan is on a fixed premium basis for all other subscribers (an employee pay-all plan). The contributory dental plan is administered by Delta Dental Plan of Massachusetts for a monthly administration fee based on the number of subscribers. The voluntary dental plan is fully insured by Delta Dental Plan of Massachusetts.

The Group has a specific excess medical and prescription drug claims reinsurance contract with an insurance carrier covering claims paid in excess of \$150,000, and \$150,000 per individual, to a lifetime maximum amount payable of \$2,000,000, and \$2,000,000 at June 30, 2009 and 2008, respectively, for the traditional medical indemnity, preferred provider organization (PPO), and exclusive provider organization

CAPE COD MUNICIPAL HEALTH GROUP

Notes to Financial Statements

June 30, 2009 and 2008

Note 1. Description of Group (continued)

(EPO) plan contracts. The Group reinsures its Carveout A plan with a policy with a \$50,000 specific deductible. The Group does not reinsure its Medex and HPHC Medicare Enhance plans. The policy period covers claims incurred within 12 months and paid within 24 months.

The Group employs the services of John R. Sharry, Incorporated, d/b/a Group Benefits Strategies (GBS), to provide certain management, consulting, and technical functions and to audit medical claims paid. The current agreement with GBS is for a three-year term ending January 31, 2012, and provides for an annual fee based on the number of subscribers. The agreement may be terminated by either party at any time with sixty (60) days prior, written notice.

Note 2. Summary of Significant Accounting Policies

Financial statements present net assets at June 30, revenues, expenses, and changes in net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America, which recognize revenues from contributions and earnings when earned and expenditures when liabilities are incurred.

Surplus and deficits are accounted for separately for the medical programs and the dental program. Accordingly, these funds are presented separately in the accompanying financial statements.

Contributions to the plans from participating governmental units are determined annually for the next fiscal year based on current operating results and estimated program costs for that year. Participants are billed monthly. Participant advance contributions are recorded as liabilities until earned.

Cash and Cash Equivalents

Generally, the Group is authorized to invest in the following investments: term deposits or certificates of deposit, trust companies, national banks, savings banks or banking companies, or obligations issued or unconditionally guaranteed by the United States Government or an agency thereof and having a maturity from date of purchase of one year or less with certain other limitations, or such securities as are legal for the investment of funds of savings banks under the bank's laws of the Commonwealth of Massachusetts based on a legal opinion received by the Group.

Cash and cash equivalents consist of cash on hand; cash in checking, savings or money market accounts; repurchase agreements; other short-term investments with original maturities of three months or less; and the Commonwealth of Massachusetts Municipal Depository Trust (MMDT) which has legislative approval for municipal use.

Claims' Liabilities

The Group's obligations include estimated health claims incurred but not reported at June 30. The Group uses the latest reported claims to record the Group's payable of reported claims and to estimate health claims incurred but not reported as of that date. Actual claims reported differ from claims estimated, but the size of the Group and stop-loss coverage minimizes the risk of a significant difference. Claims' liabilities are reviewed periodically using claims data adjusted for the Group's current experience. Adjustments to claims' liabilities are charged or credited to expense in the periods in which they are made.

CAPE COD MUNICIPAL HEALTH GROUP

Notes to Financial Statements

June 30, 2009 and 2008

Note 2. Summary of Significant Accounting Policies (continued)

Reinsurance

The Group does not include reinsured risks as liabilities unless it is probable that those risks will not be covered by the reinsurer. Amounts recoverable through reinsurers on paid claims are classified as receivable and as a reduction of claims expense.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results will differ from estimates.

Note 3. Cash, cash equivalents and investments

The Group maintains deposits in several authorized financial institutions. In the case of deposits, custodial credit risk is the risk that in the event of a bank failure, the Group's deposits may not be returned. The Group does not have a formal deposit policy for custodial credit risk. At June 30, 2009 and 2008 deposits totaled \$22,647,985 and \$14,340,431, respectively and had a carrying amount of \$23,510,401 and \$14,338,430, respectively. Of the deposit amounts at June 30, 2009 and 2008, \$4,625,138 and \$3,518,695, respectively, which includes \$2,024,981 and \$1,984,359, respectively on deposit with MMDT, was exposed to custodial credit risk at June 30, 2009 and 2008 because it was uninsured and uncollateralized. The difference between deposit amounts and carrying amounts generally represents outstanding checks and deposits in transit.

The Group maintains one account for investment which holds the following investments:

<u>Type</u>	<u>Fair Market</u>	<u>% of</u>
	<u>Value</u>	
Debt securities:		
US Government & agencies	\$3,357,621	39%
Equity securities	1,822,319	21%
Equity mutual funds	1,863,028	22%
Corporate bonds	94,578	1%
Fixed income mutual funds	<u>1,446,600</u>	17%
	<u>\$8,584,146</u>	

Custodial credit risk for investments is the risk that, in the event of the failure of the counter party to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Group has an investment subcommittee that monitors this risk however the Group does not have a specific investment policy covering custodial credit risk. Investments in open-end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. The investment account is insured by Securities Investor Protection Corporation (SIPC) up to \$500,000 and is otherwise uninsured and uncollateralized.

CAPE COD MUNICIPAL HEALTH GROUP

Notes to Financial Statements

June 30, 2009 and 2008

Note 3. Cash, cash equivalents and investments

Interest rate risk is the risk that changes in market interest rates that will adversely affect the fair market value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair market value to changes in market interest rates. The Group has an investment policy which limits the overall portfolio allocation of fixed income securities to 85% of the total portfolio, but does not otherwise limit the maturities of fixed income securities or further address interest rate risk. The approximate maturities of the Group's debt investments are disclosed in the following table:

<u>Investment Type</u>	<u>Fair Market Value</u>	<u>Maturity (In Years)</u>			
		<u>One or Less</u>	<u>One to Two</u>	<u>Three to Five</u>	<u>Thereafter</u>
US Govt. and agency securities	\$ 3,357,621	\$ 394,697	\$ 995,960	\$ 1,376,494	\$ 590,470
GE Cap Corp Bond	94,578	-	-	-	94,578
Fixed income mutual funds:					
Evergreen Intl. Bond Fund	620,154	620,154	-	-	-
MFS High Yield Fund	243,013	243,013	-	-	-
Ridgeworth Seix High Inc.	326,383	326,383	-	-	-
TIAA-CREF Inst. Bond	<u>257,050</u>	<u>257,050</u>	-	-	-
Total	<u>\$ 4,898,799</u>	<u>\$ 1,841,297</u>	<u>\$ 995,960</u>	<u>\$ 1,376,494</u>	<u>\$ 685,048</u>

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Credit risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. Obligations of the U.S. Government and certain of its agencies are not considered to have credit risk and therefore no rating is disclosed in following table. Equity securities are not rated as to credit risk. The Group has an investment policy which limits the overall portfolio allocation but is not specific as to limit investment choices to certain ratings. The following table discloses the approximate amount of debt investments in each rating classification using Standard & Poor's rating classifications:

<u>Investment Type</u>	<u>Fair Market Value</u>	<u>Exempt from Disclosure</u>	<u>S&P Rating as of Year End</u>		
			<u>A</u>	<u>BB to B</u>	<u>Not Rated</u>
US Govt. and agency securities	\$ 3,357,621	\$ 3,357,621	\$ -	\$ -	\$ -
GE Cap Corp Bond	94,578	-	94,578	-	-
Fixed income mutual funds:					
Evergreen Intl. Bond Fund	620,154	-	-	620,154	-
MFS High Yield Fund	243,013	-	-	243,013	-
Ridgeworth Seix High Inc.	326,383	-	-	326,383	-
TIAA-CREF Inst. Bond	<u>257,050</u>	-	-	<u>257,050</u>	-
Total	<u>\$ 4,898,799</u>	<u>\$ 3,357,621</u>	<u>\$ 94,578</u>	<u>\$ 1,446,600</u>	<u>\$ -</u>

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Group has an investment policy which prohibits any one issue (excluding US Government securities) from making up more than 5% of the portfolio. As of June 30, 2009, there are no securities exceeding this threshold.

CAPE COD MUNICIPAL HEALTH GROUP

Notes to Financial Statements

June 30, 2009 and 2008

Note 4. Plan Deposits and Payment Arrangements

The Group pays Blue Cross & Blue Shield (BC/BS) and Harvard Pilgrim Health Care (HPHC) a level, monthly payment each month to cover the expected cost of claims for that month. The amount has been mutually agreed upon to represent approximately one month of projected claims for BC/BS and HPHC plans. There is a quarterly reconciliation and settle-up against actual claims payments made by BC/BS and HPHC on behalf of the Group. Quarterly settle-up payments/credits are generally made for the 1st, 2nd, 3rd, and 4th fiscal year quarters in December, March, June, and September respectively.

The Group pays BC/BS, HPHC monthly, and Delta Dental in the case of the contributory plan administrative fees for self-funded health plans based on the number of individual and family subscribers covered under each health plan for the month.

Note 5. Unpaid Claims

The Group establishes a liability for both reported and unreported incurred events which includes estimates of both future payments of losses and related adjustment expenses, if any. The following represents changes in claims liabilities during the years ended June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Unpaid claims and claims adjustment expenses—beginning of year	\$ 10,790,935	\$ 11,898,106
Incurred claims and claims adjustment expenses:		
Provision for insured events of the current fiscal year	124,753,283	109,634,965
Increase (decrease) in provision for insured events of prior fiscal years	<u>(2,763,146)</u>	<u>(2,727,576)</u>
	121,990,137	106,907,389
Payments:		
Claims and expenses, net, attributable to insured events – current year	(111,260,462)	(98,844,032)
Claims and expenses, net, attributable to insured events – prior years	<u>(8,029,645)</u>	<u>(9,170,528)</u>
	<u>(119,290,107)</u>	<u>(108,014,560)</u>
Total unpaid claims and claim adjustment expenses—end of year	<u>\$ 13,490,965</u>	<u>\$ 10,790,935</u>

CAPE COD MUNICIPAL HEALTH GROUP
 Required Supplementary Information
 Ten-Year Claims Development Information

The table below illustrates how the Group's earned revenues and investment income compare to related costs of loss and other expenses assumed by the Group as of the end of each of the last ten years. The rows in the table are defined as follows: (1) This line shows the total of each fiscal year's earned contribution revenues and investment revenues. (1-a) This line shows the amount of existing net assets used to fund each fiscal year's operations, in addition to earned revenues displayed in line 1, above. (2) This line shows each fiscal year's other operating costs of the Group including overhead and claims expense not allocated to individual claims. (3) This line shows the Group's incurred claims and allocated claims adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event triggered coverage under the contract occurred (called policy year). (4) This section of rows shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. (6) This line compares the latest re-estimated incurred claims amount to the originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years:

	<u>6/30/2009</u>	<u>6/30/2008</u>	<u>6/30/2007</u>	<u>6/30/2006</u>	<u>6/30/2005</u>	<u>6/30/2004</u>	<u>6/30/2003</u>	<u>6/30/2002</u>	<u>6/30/2001</u>	<u>6/30/2000</u>
1 Earned member assessments, refunds and investment revenues	134,055,363	110,975,423	109,321,764	100,387,750	90,400,730	82,818,727	73,728,501	66,460,414	55,526,869	46,604,700
1a Net assets provided (used) by current year operations	2,720,689	(4,400,607)	1,046,834	3,623,385	3,438,337	2,975,754	5,454,285	6,621,278	1,447,287	(4,783,279)
2 Administrative and operating expenses	9,344,537	8,468,641	8,026,446	7,735,384	7,433,816	6,763,642	6,260,985	5,703,322	5,037,780	4,256,602
3 Estimated incurred claims and expense, end of fiscal year	124,753,283	109,634,965	102,551,402	89,936,391	82,615,950	73,588,400	62,730,526	54,123,815	50,676,419	47,079,917
4 Paid (cumulative) as of:										
End of fiscal year	111,260,461	98,844,030	90,653,296	80,880,494	75,571,919	64,462,173	56,074,202	46,349,094	40,247,552	34,225,430
One year later		106,891,163	100,040,770	87,640,181	81,944,902	70,036,510	61,567,856	53,937,688	50,643,517	46,423,310
Two years later			100,043,922	87,453,852	81,959,510	69,893,088	61,559,752	53,901,179	50,662,287	46,471,352
Three years later				87,442,275	81,996,340	69,894,398	61,474,697	53,905,354	50,657,554	46,475,283
Four years later					81,987,305	69,827,321	61,469,591	53,912,952	50,616,930	46,459,809
Five years later						69,827,596	61,468,673	53,897,916	50,612,196	46,459,809
Six years later							61,468,372	53,898,262	50,610,077	46,458,084
Seven years later								53,898,262	50,610,077	46,457,719
Eight years later									50,610,077	46,457,719
Nine years later										46,457,719
5 Reestimated incurred claims and expense										
End of fiscal year	124,753,283	109,634,965	102,551,402	89,936,391	79,528,577	73,079,330	62,013,231	54,135,814	50,676,419	47,079,917
One year later		106,891,163	100,040,770	87,640,181	81,944,902	70,036,510	61,567,856	53,937,688	50,643,517	45,533,796
Two years later			100,043,922	87,453,852	81,959,510	69,893,088	61,559,752	53,901,179	50,662,287	45,581,838
Three years later				87,442,275	81,996,340	69,894,398	61,474,697	53,905,354	50,657,554	46,475,283
Four years later					81,987,305	69,827,321	61,469,591	53,912,952	50,616,930	46,459,809
Five years later						69,827,596	61,468,673	53,897,916	50,612,196	46,459,809
Six years later							61,468,372	53,898,262	50,610,077	46,458,084
Seven years later								53,898,262	50,610,077	46,457,719
Eight years later									50,610,077	46,457,719
Nine years later										46,457,719
6 (Increase) decrease in estimated incurred claims and expense from the end of the original policy year		2,743,802	2,507,480	2,494,116	628,645	3,760,804	1,262,154	225,553	66,342	622,198



Bill Fraher, CPA

CAPE COD MUNICIPAL HEALTH GROUP

MANAGEMENT LETTER

June 30, 2009



June 23, 2010

The Steering Committee
Cape Cod Municipal Health Group

Bill Fraher, CPA
Nine Taylor Street
Boston, MA 02118
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Dear Steering Committee Members:

In planning and performing my audit of the financial statements of the Cape Cod Municipal Health Group for the year ended June 30, 2009, I considered its internal control structure in order to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, during my audit, I noted certain matters involving the internal control structure and other operational matters that I am presenting for your consideration.

My consideration of the internal control structure was for the limited purpose described in the preceding paragraph and would not necessarily disclose all matters that would be considered significant deficiencies or material weaknesses under standards established by the American Institute of Certified Public Accountants. In addition, because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected by such control structure.

The matters involving the internal control structure and other operational matters are presented in the following report. These matters were considered in determining the nature, timing and extent of the audit tests applied in my audit of the financial statements, and this report does not affect my report on those financial statements dated June 23, 2010. I have not considered the internal control structure since the date of my report.

This report is intended solely for the use of the Steering Committee and Group management.

Overview

[Please note that the discussion of the Group's financial results is based on amounts in the Group's financial statements, presented in accordance with Generally Accepted Accounting Principles (GAAP).]

For the fiscal year ended June 30, 2009, the Group continued to present a positive financial picture in its financial statements. Operating revenues increased 22.4% to \$135 million (comparatively, last year's increase was 2.8%). The larger increase as compared to the prior year was due to a one month premium holiday which occurred in fiscal year 2008. At June 30, 2009, the Group's net assets were \$18.2 million, an increase from \$15.1 million at June 30, 2008.

Overview (continued)

For fiscal year 2009, good claims experience and a continued lower than historical Incurred But Not Reported (IBNR) liability resulted in the Group generating \$3.1 million in net assets. At June 30, 2009, the Group's net assets were approximately 15% of claims expenses. This amount is slightly over the Group's benchmark of 8% - 12%, but not a significant excess.

Control Deficiencies and Other Matters for Management Consideration

Statement on Auditing Standards (SAS) 112, *Communicating Internal Control Related Matters Identified in an Audit* was effective for the 2007 audit. This SAS provided new definitions and guidance to assist auditors in better communicating internal control deficiencies. Under this new SAS, there are three categories of internal control deficiencies and other matters that can be identified during an audit. These three categories are material weaknesses, significant deficiencies and control deficiencies. Any items that are identified as material weaknesses or significant deficiencies require that the auditor's report on internal control and compliance (which is presented in the report on the financial statements) be modified.

1. Accounting and Financial Reporting Controls – Significant Deficiency

As discussed in last year's management letter and consistent with how Massachusetts joint purchase groups typically operate, the Group has placed significant control over the accounting and financial reporting functions in the hands of the Group Treasurer. The Treasurer performs or supervises all functions and controls that initiate, record and process accounting transactions and financial reporting. These functions include posting cash transactions, controlling unused checks, processing cash receipts and cash disbursements, preparing financial reports and reconciling monthly bank statements.

The Group has instituted several mitigating controls including detailed monthly review of group financial statements and reports; review of monthly changes in cash report documenting reconciling items; Steering Committee approval of group expenditures; mailing and monitoring of duplicate bank statements to a board member; as well as an on-going risk assessment process.

Despite these mitigating controls, the potential internal control risks have not been reduced to an appropriate level. As a result, the combination of duties assigned to the Treasurer constitutes a significant deficiency I am required to report to you under the new auditing standards noted above. I understand the Group has considered these aspects of its internal control and currently feels there is an acceptable level of risk which would not warrant additional expenditures at this time. The Group will continue to monitor and evaluate these aspects of its internal control annually as part of its risk assessment program.

2. COBRA Advanced Deposits – Control Deficiency

For the past several years, the Group has been unable to provide a detailed list that supports the general ledger amount for COBRA advanced deposits. While it appears that there is a system for tracking former Group member employees that are on COBRA, this system appears to be geared towards COBRA statutory compliance and not accounting reconciliations.

The current COBRA tracking system should be modified or supplemented with a tracking process that allows for a detailed list of balances due or prepaid for COBRA participants. The Group has reduced the COBRA advanced payment amount from last year's amount of \$75,000 to a more reasonable estimate of \$25,000 and has implemented monthly tracking of revenues and billings. To complete this process, a system that can track outstanding or prepaid balances by individual should be implemented.

* * * * *

Finally, I would like to thank the Group Treasurer and its members for their assistance and courtesy during the course of the audit.



Bill Fraher, CPA
June 23, 2010